



SMALL BANK

Comptroller of the Currency
Administrator of National Banks
Washington, DC 20219

PUBLIC DISCLOSURE

January 15, 2004

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank of Gilman
Charter Number 5856**

**209 South Crescent Street
Gilman, IL 60938**

**Comptroller of the Currency
Champaign Field Office
3001 Research Road Suite E2
Champaign, IL 61822**

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

INSTITUTION'S CRA RATING

This institution is rated Satisfactory.

- A substantial majority of loans are in the bank's assessment area.
- The bank's loan to deposit ratio is reasonable given the bank's size, financial condition, and assessment area credit needs.
- The distribution of loans reflects, given the demographics of the assessment area, more than reasonable penetration among retail customers of different income levels (including low- and moderate-income) and farms of different sizes.

DESCRIPTION OF INSTITUTION

The First National Bank of Gilman (FNBG) is a \$45 million intrastate bank situated and operated from a main office located at 209 South Crescent Street in Gilman, Illinois. Gilman, located in Iroquois County, is approximately 90 miles south of Chicago Illinois, 25 miles south of Kankakee, Illinois, and 50 miles north of Champaign, Illinois. Gilman sits at the "crossroads" of the Illinois Central Railroad and the Toledo, Peoria and Western Railroad, as well as Interstate 57 and Routes 24 and 45. The population of Gilman is approximately 1,800.

Iroquois Bancorp, Incorporated, a one-bank holding company located in Gilman, Illinois, owns FNBG. Total holding company assets as of December 31, 2002, were approximately \$3.5 million. FNBG has one branch office within 14 miles of the main office. This branch, opened in January of 1999, is located in Watseka, Illinois. The bank also has two deposit taking automated teller machines (ATMs). One ATM is located at the main office in Gilman, Illinois, and the other ATM is located at the branch in Watseka, Illinois.

FNBG offers a full range of retail and commercial banking products normally associated with a community bank. These products include commercial and agricultural loans (operating, equipment, and real estate), residential real estate loans (construction, purchase, refinance, and home improvement), and consumer installment loans (new and used autos and trucks, debt consolidation, unsecured, and credit cards). FNBG's primary lending products include commercial loans, agricultural loans, and consumer loans. At December 31, 2002, total loans amounted to \$23.6 million, which comprised fifty two percent (52%) of total assets. The following represents this institution's loan and lease portfolio mix as of December 31, 2002:

Commercial Loans	\$ 9,828	42%
Consumer Loans	\$ 5,688	24%
Agricultural Loans	\$ 5,576	24%
Real Estate Loans	\$ 2,371	10%
Other	\$ 172	0%
Total	\$23,635	100%

The bank's portfolio mix has changed somewhat during this evaluation period. Commercial loans increased from 12% of gross loans to 42%, while consumer installment loans decreased from 33% to 24%. Agricultural loans also decreased from 27% to 24% and residential real estate loans decreased from 28% to 10%.

Tier one capital totals \$2.5 million as of December 31, 2002. The bank does not have any financial or legal impediments restricting it from meeting the credit needs of its local community. The bank has adequate resources to provide for the credit needs of its assessment area. The type and amount of CRA activities are consistent with the bank's size, its financial capability, local economic conditions, and credit needs of the community. FNBG's last CRA examination was February 17, 1998 and the rating was "Satisfactory".

SCOPE OF THE EVALUATION

- The evaluation period covers loans originated during 2001 and 2002.
- 1990 census data was utilized for evaluating loans originated in 2001 and 2002.
- Financial data is as of December 31, 2002.
- FNBG has only one assessment area in Iroquois County. The Iroquois County AA received a full-scope review.

DESCRIPTION OF THE ASSESSMENT AREA

The bank's assessment area (AA) consists of seven block-numbering areas (BNAs) in Iroquois County (# 9501, #9503, #9504, #9505, #9506, #9507, and #9508). All seven (100%) of these BNAs are middle-income geographies. There are no low- or moderate-income geographies in the AA. This AA conforms to the regulation and does not arbitrarily exclude low- or moderate-income areas.

The following demographic information on the bank's AA is based on 1990 census data:

Population	23,736 people live in the assessment area.
Housing Stock	91% of the housing units are 1-4 family.
Occupancy	67% owner occupied; 24% renter occupied; 8% vacant.
Home Values	The median home value is \$39,786.
Age of Homes	The median year of homes built is 1950.
Income	Median family income of the assessment area is \$29,793.
Income Levels	16% of the families are low-income, 20% are moderate-income, 26% are middle-income, and 38% are upper-income.
Updated Income	2002 HUD Non-MSA Illinois median family income is \$46,700.

Many of the communities in the county are growing retirement areas with 14% of the number of households headed by residents over 65 years of age. Ten percent of the households are below poverty level.

The local economy in Iroquois County is stable. Agriculture, services, and retail trade drive the

area economy. The largest employers include Ford and Iroquois Special Education Office, Incobrasa Industries, Prairieview Nursing Home, and Onarga Academy. Unemployment is in line with state and national averages in Iroquois County. In December of 2002, the unemployment rate for Iroquois County was 6.3%. The state unemployment rate for the same period was 6.7%, compared to the national rate of 5.7%.

FNBG faces competition from state and national banks as well as savings and loans and savings banks located in Iroquois County. These include Iroquois Federal Savings and Loan Association, First Trust and Savings Bank of Watseka, Cissna Park State Bank, Federated Bank, and Iroquois Farmers State Bank. As of June 30, 2002, FNBG ranked third, with 7.7% of the market share, of the 18 banks with 29 offices located in Iroquois county.

A local business owner was contacted during this examination. The main community need, according to the contact, is new industry and manufacturing for job creation. According to the contact, area banks are doing a good job of investing in community development.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

This review concentrated on the bank’s primary loan products. Based upon the bank’s portfolio mix as of December 31, 2002, commercial loans, consumer loans, and agricultural loans were the primary loan products. Therefore, the samples used to evaluate the lending performance components were commercial loans, consumer loans, and agricultural loans.

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

The distribution of loans reflects, given the demographics of the assessment area, less than reasonable or poor penetration for loans to businesses of different sizes, more than reasonable or good penetration among retail customers of different income levels (including low- and moderate-income), and more than reasonable or good penetration among farms of different sizes.

Commercial Loans

Within the bank’s assessment area, seventy percent (70%) of the number and fifty-two percent (52%) of the dollar of twenty commercial loans sampled were to small businesses. A small business is defined as those businesses with annual gross revenues of less than one million dollars. As shown in *Table 1*, this activity is significantly lower when compared to the number of businesses located in the assessment area, eighty percent (80%), that have revenues equal to, or less than, one million dollars. Although these numbers are significantly lower, it should be noted that during this evaluation period, the bank did not deny any loans to small businesses.

The following table shows the distribution of commercial loans among businesses of different sizes within the assessment area:

Table 1 – Borrower Distribution of Loans to Businesses in the AA		
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000

% of AA Businesses*	80%	6%
% of Bank Loans in AA by #	14 (70%)	6 (30%)
% of Bank Loans in AA by \$	\$761,382 (52%)	\$694,018 (48%)

Source: This table is based on a sample of 20 commercial loans that were originated in 2001 and 2002, and 1990 business demographic data. In the assessment area demographics, 14% of businesses did not report revenue data.

Consumer Loans

As shown in *Table 2*, the amount of consumer loans made to low- and moderate-income borrowers is good. Within the bank's assessment area, fifty percent (50%) of the number of loans and forty-eight percent (48%) of the dollar of loans were made to low-income borrowers. Additionally, thirty-five percent (35%) of the number of loans and forty percent (40%) of the dollar of loans were made to moderate-income borrowers. The percentage of the number and dollar of loans made to low-income and moderate-income borrowers is more than reasonable and exceeds the percent of families in each of these categories (i.e. sixteen percent and twenty percent).

The following table shows the distribution of consumer loans among borrowers of different income levels within the assessment area.

Table 2 - Borrower Distribution of Consumer Loans in the AA by Number and Dollar Volume								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Families	% of Loans	% of AA Families	% of Loans	% of AA Families	% of Loans	% of AA Families	% of Loans
Consumer Loans By #	16%	50%	20%	35%	26%	15%	38%	0%
Consumer Loans By \$	16%	48%	20%	40%	26%	12%	38%	0%
		10		7		3		0
		\$89,964		\$75,663		\$23,385		0

Source: This table is based on a sample of 20 consumer loans that were originated in 2001 and 2002 and 1990 demographic data.

Agricultural Loans

Within the bank's assessment area, one hundred percent (100%) of the number of loans and one hundred percent (100%) of the dollar of loans were to small farms. A small farm is defined as those farms with annual gross revenues of less than one million dollars. As shown in *Table 3*, this activity is more than reasonable when compared to the number of small farms located in the assessment area, ninety-nine percent (99%), that have revenues equal to, or less than, one million dollars.

The following table shows the distribution of agricultural loans among farms of different sizes within the assessment area:

Table 3 - Borrower Distribution of Loans to Farms in the AA		
Farm Revenues	≤\$1,000,000	>\$1,000,000
% of AA Farms*	99%	1%
% of Bank Loans in AA by #	20 (100%)	0 (0%)
% of Bank Loans in AA by \$	\$1,025,928 (100%)	\$0 (0%)

Source: This table is based on a sample of 20 agricultural loans that were originated in 2001 and 2002, and 1990 farm demographic data.

Loan-to-Deposit Ratio

The bank's loan-to-deposit ratio is reasonable based on the institution's size, financial condition, and assessment area's credit needs. During the past 23 calendar quarters, FNBG's loan-to-deposit ratio has averaged 50.91%. Six banks, with asset size of \$31 million to \$59 million and having at least one office in the assessment area, were used in the analysis. The average loan-to-deposit ratios of these six banks ranged from a low of 54.50% to a high of 68.93%. Although the bank's average loan-to-deposit ratio remains below that of the similarly situated banks, this is not a concern as the bank's loan-to-deposit ratio has consistently improved. During the most recent quarter used in our analysis, (third quarter of 2003) the bank's ratio is 55.99%. This ratio falls within peer average.

Lending in Assessment Area

A substantial majority of the loans being originated is within the bank's assessment area. Based upon a sample of loans (20 commercial loans, 20 consumer loans, and 20 agricultural loans) originated in 2001 and 2002, ninety-two percent (92%) of the number and ninety-one percent (91%) of the dollar amount of the loans were made within the bank's assessment area. The following tables show the dollar amount and the number of loans from our sample that fall within the assessment area and outside the assessment area:

Table 4 - Lending in the AA by Number and Dollar Volume										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Commercial Loans	18	90%	2	10%	20	\$1,315,400	85%	\$225,000	15%	\$1,540,400
Consumer Loans	18	90%	2	10%	20	\$ 160,334	96%	\$ 6,040	4%	\$ 166,384
Agricultural Loans	19	95%	1	5%	20	\$1,004,928	99%	\$ 1,800	1%	\$1,006,728
Totals	55	92 %	5	8%	60	\$2,480,672	91%	\$232,840	9%	\$2,713,512

Source: This table is based on a sample of 20 commercial loans, 20 consumer loans, and 20 agricultural loans originated in 2001 and 2002.

Geographic Distribution of Loans

A geographic distribution analysis was not performed. The bank's assessment area does not

include any low- or moderate-income BNAs.

Responses to Complaints

The First National Bank of Gilman has not received any complaints about its performance in helping to meet the assessment area needs during this evaluation period.

Fair Lending Review

We found no evidence of illegal discrimination or other illegal credit practices.